



Graduate School of Development Studies

Trade Policy and Poverty Reduction in Africa: barking up the wrong tree?

A Research Paper presented by:

FELICIA ESI APPREKU

(GHANA)

in partial fulfillment of the requirements for obtaining the degree of
MASTERS OF ARTS IN DEVELOPMENT STUDIES

Specialization:

**Poverty Studies and Policy Analysis
(POV)**

Members of the examining committee:

(PROF. DR MARC WUYTS) Supervisor

(DR. ANIRBAN DASGUPTA) Reader

The Hague, The Netherlands

November, 2010

Disclaimer:

This document represents part of the author's study programme while at the Institute of Social Studies. The views stated therein are those of the author and not necessarily those of the Institute.

Inquiries:

Postal address:	Institute of Social Studies P.O. Box 29776 2502 LT The Hague The Netherlands
Location:	Kortenaerkade 12 2518 AX The Hague The Netherlands
Telephone:	+31 70 426 0460
Fax:	+31 70 426 0799

Dedication

This paper is dedicated to all African leaders in their efforts to eradicate poverty and put a smile on the face of the African poor.

Acknowledgment

The success of this work is as a result of the collaborative effort and support of a number of people to whom I express my gratitude. My initial appreciation is to Prof. Dr. Marc Wuyts. I am grateful for your guidance from the start of the whole process to the end despite your busy schedule; you always gave me a good reason to believe I could make this paper a better piece. Your directions and comments have helped to shape it and make it better and it has indeed been a great learning process. Thank you for the inspiration and knowledge you have impacted. Dr. Anirban Dasgupta, thank you for your constructive comments and inputs and for always being there to help me see the various options to make the paper a success. I am grateful. I would also like to thank the rest of the staff group members who have helped in various ways especially laying the foundation for this process to come to fruition. To you Dr. John Agbonifo, you have been a mentor and a part of this process from the beginning and helped to make the dream a reality through your constructive and scholarly comments and encouragement. Thank you for keeping the hope alive and the reassurance that it is worth doing.

Furthermore, I thank Ms Mary-Anne Addo, Mr R.A Danquah, Mr Alexander Kwaning, Dr. John Gasu, Mr. T.A Azuure and Mr Fauster Agbenyo for the encouragement and inspiration to this achievement. I also thank Mr Atta Dabone for your help in realizing this dream. I am also grateful to Anthony Selom Dzadzra, for your inspiration, support, encouragement, trust and belief that I can make it and indeed to God be the Glory. I also thank Margaret Ama Kyiu for your inputs, they have really been helpful.

Additionally, I am thankful to the JJWBG for their financial support that enabled me undertake my graduate studies. Finally, to my family and friends thank you for your spiritual support and warm thoughts, they made this tough journey quite lighter and to every other person who helped to make this academic achievement a success, I am grateful.

Contents

<i>List of Tables</i>	<i>vii</i>
<i>List of Charts</i>	<i>vii</i>
<i>List of Acronyms</i>	<i>viii</i>
<i>Abstract</i>	<i>ix</i>
Chapter 1 General Introduction	1
1.1 Problem Statement	1
1.2 Methodology	2
1.3 Justification of the Study	2
1.4 Limitations of the study	2
1.5 Organization of study	3
Chapter 2 Comparative Advantage, Trade Liberalization and Economic Development	4
2.1 Introduction	4
2.2 Comparative advantage	4
2.2.1 Static Comparative Advantage	6
2.2.2 Liberalization	6
2.2.3 Dynamic comparative advantage	9
2.2.4 Industrial Policy and trade	10
2.3 From Industrialization to Liberalization: the WB and Mozambique's Cashew Industry	11
2.4 Conclusion	14
Chapter 3 PRSP, Trade Policy and Poverty Reduction	15
3.1 Introduction	15
3.2 The Origin of PRSPs	15
3.2.1 The SAPs	15
3.2.2 PRSPs	16
3.3 PRSPs: trade policies and poverty relationship	18
3.4 Challenging view	21
3.5 Effect of Zambia's Market liberalization on Employment in Agriculture	22
3.6 Conclusion	25
Chapter 4 Alternative Perspectives to the Dominant Policy Framework?	27
4.1 Introduction	27
4.2 PRSPs and competing views	27
4.2.1 Employment and Trade policies	28

4.3	Alternatives to dominant frameworks: what spaces do African economies have to maneuver?	30
4.3.1	What is in this for Africa's development?	33
4.4	Conclusion	34
	Chapter 5 Final Consideration	35
5.1	Trade Policies	35
5.2	Trade, Poverty and PRSPs.	35
5.3	Alternative trade arrangements	36
	<i>References</i>	<i>37</i>

List of Tables

Table 1: Composition of export by selected regions in 1980 based on comparative advantage	9
---	---

List of Charts

Chart 1: Relationship between Trade, Productive capacities and poverty Reduction.	17
Chart 2: Chart showing issues to be considered in trade and poverty	20

List of Acronyms

BWIs:	Bretton Woods Institutions
CNEEC:	China National Electric Equipment Corporation
DFID:	Department for International Development
EC:	European Commission
EU/ACP:	European Union, African Caribbean Pacific
EUROSTEP:	European Solidarity towards Equal Participation of People
GDP:	Gross Domestic Product
HIPC:	Highly Indebted Poor Countries Initiative
IDA:	International Development Agency
IFIs:	International Financial Institutions
IMF	International Monetary Fund
ISI:	Import led Substitution Industrialization
LDCs:	Least/Less Developed Countries
MDGs:	Millennium Development Goals
NGOs:	Non-Governmental Organizations
PPP:	Purchasing Power Parity
NPRAP:	National Poverty Reduction Action Plan
NPRSF:	National Poverty Reduction Strategic Framework
PRSPs:	Poverty Reduction Strategy Papers
SAPs:	Structural Adjustment Programmes
SEA:	Single European Act
SSA:	Sub-Saharan African
UNCTAD:	United Nations Conference on Trade and Development
UNRISD:	United Nations Research Institute for Social Development
WB:	World Bank

Abstract

This study investigates the relations between trade policies and poverty with the focus on the PRSPs which have become the main tool for poverty reduction in most Sub-Saharan African (SSA) countries. Africa and for that matter SSA has been said to assume the face of poverty and there have been efforts to reduce the menace (Ndulu, 2006). One strategy which has dominated the development agenda for poverty alleviation from the 1980s through to the 1990s is the PRSPs. The paper seeks to find out how PRSPs relate trade and poverty reduction and what has been the outcome of the mix.

With regards to the analytical framework which rests on the assumption of trade policies, the study emphasizes that trade policies are relevant in any trade arrangement. This is evident in chapter two which discusses trade theories and its implications for the gains thereafter. The study reiterates that most African countries have implemented a number of trade policies such as liberalization. However, evidence from the study indicates that such policies often position SSA countries in their comparative advantage which is mostly static.

The inability of SSA economies to escape their limitation to static comparative advantage rests on the failure to adopt strategic liberalization as was done in the case of South Korean and Taiwan. Moreover, the kind of industrialization policy pursued was inappropriate and inefficient. The result was that industrial policy on the sub-continent failed to yield the expected result. Thus, most SSA countries remain major exporters of primary commodities (Wood and Mayer, 2001).

The paper posits that PRSPs actually consider trade-related issues but minimally. There is a greater focus on macro-economic stability achievement and other budgetary reforms in order to reduce poverty. Trade issues were not distinctively defined by the PRSPs; emphasis was on liberalization and export promotion policies.

Findings of this paper however show that the EU and the emerging Chinese cooperations in Africa are not totally different strategies from what the Bretton Woods Institutions (BWIs) propagated. Although there are differences in approach, basically, they all aim at the objective of poverty reduction and preach the practice of trade cooperation. The paper therefore notes that what African governments must do is to critically assess the contents of what the new strategies to poverty reduction present in order not to repeat the mistakes of just signing agreements for aid. Anticipated effectiveness of aid therefore, must guide their choice for accepting aid for development and poverty reduction.

Relevance to Development Studies

This study contributes to the vast literature on trade and poverty with a focus on how the PRSPs have dealt with trade issues and its contribution for poverty reduction. Although this is not entirely a new area, the paper looks at how PRSPs have projected trade as a mean of poverty reduction and often reduce trade to promotion of imports and liberalization police. The insight of this paper invites African governments and development agencies to reflect on their development philosophies and practice.

Keywords

International trade, PRSPs, SAPs, Trade policies, Poverty Reduction, Alternate Trade Agreement, China-Africa cooperation, EU/ACP.

Chapter 1 General Introduction

1.1 Problem Statement

Poverty and its reduction has become a global phenomenon, and there have been a number of strategies to address the menace by both governments of developing countries and multinational as well as bi-lateral organizations (Saasa and Carlson, 2002). In Africa, the state of poverty is on the ascendancy, for instance, it is reported that about the world's 10% population lives in Africa but out of this it accommodates about 30% of the poor (Ndulu et al, 2006). Efforts to reduce the poverty situation led to the emergence of several strategies such as the PRSPs. This strategy became a major tool in Africa in the early 1980s through to the 1990s and thereafter. A number of economic policies were outlined in the PRSPs for the restructuring of poor African economies as well as to reduce poverty. One of such policies is the trade aspect on which this paper builds its argument. Most African countries have engaged in one form of trade or another in order to increase their foreign export in order to facilitate imports and also to develop.

Contrary to these ideals and hope of African countries regarding trade partnership, results have been minimal. With regards to the trade policies that were pursued, most of these countries found themselves in the area of producing and exporting basically raw materials in the world economy. Furthermore, these PRSPs have not been able to concretely establish the relationships between trade and poverty in these strategic documents (Hewitt and Gillson, 2003). The dominant feature of how the PRSPs presented trade issues were basically that they reduced trade to liberalization policies, hence the notion that trade is liberalization and the same as industrial policies. But as Mackintosh (2004) argues, trade policies should not be reduced merely to liberalization of a country's economy.

It is in this regard that the paper tries to investigate the relationships that exists between trade policies and poverty through the 'lens' of the PRSPs which have scantily mentioned lines regarding to trade. These policies as presented in the strategic framework focuses much attention on the achievement of macro-economic policies rather than giving the needed attention to trade instead of reducing it to export promotion.

One worrying issue which the paper investigates is why African countries in spite of their low gains are still engaging in such cooperations. For instance, most African countries are member states of the EU Africa cooperation which also has its objectives of promoting a regional integration through trade (Smith 2008). The paper therefore seeks to understand whether these new alternatives actually promote trade and reduce poverty or reinforce the traditional trade agreements and poverty reduction strategies as was in the case of the PRSPs.

In order to answer this problem, the paper has the objective of investigating the linkage between trade policies and poverty reduction, what other alternate trade arrangements are available for Sub-Saharan Africa. Moreover, it considers how these arrangements challenge the existing views of trade policies that underlie the PRSPs. The main research question is; how do

trade policies feature in the PRSPs, in other words, what do PRSPs say about trade policies and what role they have played with respect to trade and poverty reduction. What trade arrangements are emerging differently from the PRSPs. To answer these questions, the following sub-questions were asked;

1. How do PRSPs address trade and poverty issues/policies? In other words what do they say about trade?
2. How are the trade component intended to work in the PRSPs?
3. What alternative trade arrangements are available for Africa's development.
4. What does the new trade arrangements hold for Africa's current trade relation and development?

1.2 Methodology

In order to carry out this research, a literature study was utilized to collect and analyze data in order to answer the research questions. This was done by critically analyzing the relevant literature on the topic to develop an analytical argument. The research relied mainly on the use of documentary sources or secondary sources. This consists of a review of relevant range of information relevant to the study in the areas of poverty and its causes in developing countries, the linkages between trade and poverty reduction and also relevant documents on the role of PRSPs in trade. Varied number of materials from policy documents such as PRSPs, electronic articles and journals, country reports, books and internet information and other sources available were consulted.

For the research questions to be answered, the author reviewed literature from relevant journals and articles to get the in-depth understanding of the concepts used. Data from online sources complemented other sources of data.

1.3 Justification of the Study

Several programmes such as the SAPs and the PRSPs have been used by some countries in attempt to achieve high rates of growth and reduce poverty in Africa drastically. However this desirable goal has not been achieved after decades of implementation. The study therefore explores how policies of growth and poverty reduction have worked especially in terms of trade. Although there is enormous work done on trade and poverty reduction, there is a gap between how trade policies have helped to reduce poverty. This research therefore investigates the trade policy implication for the growth and poverty of SSA. It is also to generate a further research with regards to trade policies and poverty reduction programmes on the continent and add to the wide literature in the area of study.

1.4 Limitations of the study

Since there is no research without limitations, the research had some sort of short coming in the process. Although information was in abundance regarding the chosen area of research, there was a bit of difficulty with the wide range of data/information from which the researcher had to do a critical

search in order to generate the relevant information given the limited scope of time. This notwithstanding, the researcher made use of the available sources of information including the search engines in order to address the objective and questions of the research.

1.5 Organization of study

In order to carry out this study, the paper is structured in five chapters. Chapter one discusses the background, chapter two deals with comparative advantage, liberalization and economic development this is because, to understand how countries play in the trade arena, trade policies pursued needs to be understood. Chapter three discusses PRSP, trade policy and poverty reduction and followed by looking at how the PRSP policies have worked and what new “trade arrangements” are available and how they challenge assumptions of traditional aid donors; WB/IMF. Chapter five presents conclusions based on the objective and research questions and also the theoretical framework within which the study operates.

Chapter 2

Comparative Advantage, Trade Liberalization and Economic Development

2.1 Introduction

Comparative Advantage and Liberalization policies have become issues of concern with regards to international trade and development, particularly as they affect developing countries. Both issues are the focus of this chapter. The chapter seeks to provide an overview of the theoretical foundations of comparative advantage and liberalization. It discusses their underlying assumptions especially as promoted and pursued by the World Bank (WB) and the International Monetary Fund (IMF) and other group of economists. Moreover, it examines how the comparative advantage of a country determines its place in the international division of labour and the possibilities of a dynamic advantage or the perpetuation of old or static comparative advantages in the international trade regime. The chapter sheds light on trade theories, role of comparative advantage in trade, focusing on how countries can be locked up in specialization either as gainers or losers in trade. The chapter concludes by looking at a policy failure on Mozambique's cashew export.

Furthermore, it discusses in detail trade theories and their implication for the differences that exists in the gains for countries SSA. In the 1980s, policy-makers became concerned with issues of trade policy and development. Van Marrewijk (2002) argues that the various trade theories have the tendency of placing a country in either a winning or losing position in trade, thus these policies affect goods produced and consumed, this he posits are based on several factors such as the technological advancement among others. These policy choices as he discusses are a) Tariffs and quotas and trade restrictions, b) New trade theories, c) Infant industry/intra-industry trade and d) Strategic trade theories. The choice for using trade theories in this paper is that they are relevant for drawing conclusions of how countries position themselves in the international division of labour.

2.2 *Comparative advantage*

Comparative advantage has dominated international trade theory; the theory argues that countries gain from international trade, even if labour and capital share differentially from the benefits. Thus, the theory has promoted the case for free trade or liberalization. Moreover, the comparative advantage theory claims that the global economy benefits from trade. The distribution of gains however depends on demand and supply conditions, which shape the terms of trade, and such conditions can change. If the global pattern of demand for a country's product is relatively strong, the country will benefit more from trade because the demand would drive up the price of exports. However, rapid supply growth will lead to global glut, harming the country by driving down the prices of exports. For instance, the US benefitted from trade after World War II because capital was scarce, demand was strong and there were few suppliers.

However, that gain slowed as suppliers increased and capital became widely available.

David Ricardo's theory of comparative advantage posits that open exchange between countries will increase the total amount of global output if each country specializes in goods that it can produce at a relatively lower cost compared to potential trading partners. Each country then would trade some of those lower-cost goods with other nations for goods that can be produced elsewhere more cheaply than at home. In a globalized arena, countries have integrated in various ways and an example is the coming together of nations through trade. Mackintosh (2004) describes the contemporary world as one in which countries cannot live in 'autarky', repudiating trade and producing all goods and services they need without interacting with others.

Streeten (1990) points out that comparative advantage assumes that all economies engaged in trade are on their production frontiers which is backed by the philosophy that the production of more of a commodity than another makes an optimal use of the available factors of production, hence the gains in specialization. Additionally, the theory has a mechanism that translates comparative real advantage into absolute cost and price advantage and allows for higher incomes from the international division of labour. Mackintosh (2004) argues that in a comparative advantage situation where specialization is premium, demand for certain kinds of produce may rise while demand for others fall depending on other factors. Hindley and Smith (1984) indicate that the theory determines the flow of trade based on capital and labour endowments at different locations. As shown by the authors, the assumption that countries trade based on their comparative advantage may be misleading.

To many economists, comparative advantage rests on the assumption that countries involved in trade produce more of goods at the best of opportunity cost to maximize gains. The theory further assumes that there are differences in factor endowment for all countries and thus their abilities to produce one good more than another (Tutor 2U 2010). Therefore, there is likely to be an increase in output if countries specialize in the areas in which they have an advantage and are endowed. The theory assumes that all the factors of production are immobile and that all countries have the capacity to produce all goods. Any imports are perfectly balanced by an equivalent-valued export flow; thus, neither country incurs a trade deficit, which must be financed. Further, it is assumed that perfect competition, and not monopoly production prevails and that all resources in each country are fully employed. The last is an especially important assumption, particularly for less-developed nations, since with less-than-fully employed resources, tariffs or other forms of protection including subsidies to block imports and to increase domestic employment could well be the preferred policy. Comparative advantage stresses allocative efficiency, or domestic resource allocation into sectors where productivity is maximized (Rodrik 1992). With less-than-fully employed resources, the key allocative issue becomes an internal mobilization of domestic resources to their full use, rather than a reallocation among alternative uses.

The comparative advantage argument and free trade recommendations for less-developed nations have raised concern in some quarters. It is argued that specialization per se may not be so important for a country's future as is the

choice of what to specialize in. The production of some goods may be more likely to have expanding world demand in the future. Some types of production may be more likely to benefit from the application of science and technology over time.

2.2.1 Static Comparative Advantage

A country's success in competitive trade and in its factor endowment may propel its comparative advantage to change. But this does not hold for economies which are not able to expand their productive frontiers, and, therefore, remain static or bogged down in their old comparative advantages. Comparative advantage rests on the assumption that countries do what they are best at and this reflects in the gains realized from trade. For example Mackintosh (2004) argues that countries are endowed with various factors, abilities and resources. Therefore, if they specialize in what they do best, then trade would benefit every party engaged in it. From Mackintosh's view point, it is evident that a clear relationship exists between specialization and the gains from trade from a comparative advantage point of view. According to Mackintosh, a country with abundant mineral resources and labour would extract more of such resources whilst that with an endowment in skilled labour is likely to specialize in manufactures or in firms.

Athreye (2004) indicates that a country's static comparative advantage through specialization promotes growth, for instance, if the specialization is propelled by industrialization as in the case of India's software industry in the 1980s. In this regard, it is argued that a poor country which opens up to international trade might have the bulk of its export in agriculture but this trend may decline due to economic growth and a shift from its previous production. Thus the basic underlying philosophy of trade policies is the economic analysis which is often made. But contrary to this idea, Mackintosh (2004) points out that there exists differences in the ability of countries and their resource endowment hence the differences in specialization of trade compositions which further determine the gains there of. Thus, in a world where there is free movement of capital and labour between sectors but immobile across boundaries, the concept would be beneficial to countries that engage in it. She further indicated that Africa's integration into trade has had a limited gain as a result of the slow growth in the world demand for primary commodity which comprises the bulk of their exports leading to falling prices on the world market. Thus, the 'declining terms of trade for its exports, specialization and free trade may well be the sub optimal policy choice for some countries. The appropriate response to declining terms of trade is not to withdraw from the trading system, but rather to recreate a basis for comparative advantage' (Cypher and Dietz 1999: 3).

2.2.2 Liberalization

Liberalization can be described as a major mainstream policy to achieve economic objectives in trade as described by McCulloch et al (2001). The authors show that liberalization deals with the removal of trade barriers to goods and services in a growing globalized world. As described by

Bhattacharjea (2004:16), 'trade liberalization refers to the reduction or abolition of barriers to trade such as tariffs and quotas'. Additionally, Athreye (2004) admits that though Bhattacharjea rightly defines liberalization, it can be broadened to include the progressive removal of administrative controls which has to do with a free market for goods, reduction in the role of public investment, privatization of publicly owned assets, financial liberalization among others. Rodrik (1992) admits that there are gains from liberalization but was quick to mention that this gain can accumulate over time but does not necessarily put the economy on a superior path to technological development. He indicates that 'in equilibrium terms, liberalization increases the income of exporters, who by the same reasoning would be prone to relax on their technological efforts' (1992:158). He cites the case of Indonesia with a restrictive trade regime with exchange rate and macro-policies that are quite unobjectionable. In a similar vein, Korea and Taiwan achieved macroeconomic stability in the 1960s without sizeable trade liberalization (Ibid).

Due to the confusion of liberalization with bad economic policies, there is therefore a need to differentiate clearly the mismanagement of macroeconomic policies from trade liberalization as reiterated by Rodrik (1992); since an open trade regime is likely to lower costs and give domestic firms the opportunity to increase output as a result of participating in the world market. Furthermore, this assumption does not hold for most developing countries but as argued by Rodrik there is an underlying hidden fact about why most of these developing countries cannot take advantage of export in a liberalized regime. He gives an example of the Chilean trade liberalization with the promotion of primary related products compared to the manufactured export boom in Korea and Taiwan in the 1960s. Although there are agreements that liberalization brings gains, there is a need to look critically at the gain proportionately: 'rich countries stand to gain \$80 billion (82%), compared with \$16 billion (18%) for developing countries of which a major portion of the gains for developing countries benefit large countries as Brazil and China where Sub-Saharan African countries are expected to be net losers' (Sundaram and Arnim, 2009: 212). It is evident from the above that though liberalization brings gains, it depends on the comparative advantage position of a country in trade coupled with prevailing policies.

Gainers or losers from comparative advantage/liberalization

In a trade arena there are winners and loser, 'a win-lose outcome to globalization which is referred to as the glass as half empty; the very success of some in the global economy is a cause of the poverty of others' (Kaplinsky 2005:7). Trade presents an opportunity for countries to make gains though there may be losers. As clearly indicated 'there is a considerable theoretical and empirical literature on the unequal distribution of the gains from trade and technical change between primary commodities and manufactures, giving rise to long-run terms of trade pessimism for both primary commodity producers and developing countries' (Evans 1990: 227). There are instances where a number of low and middle income countries have grown very fast above average in world trade as a result of their export and their total output. Additionally, countries such as Taiwan and South Korea have raised their

incomes levels in the 1950s due to their successful participation in trade (Mackintosh 2004).

On the contrary, the success story of countries making gains in trade is not a static one; there are evidences of countries which have participated in trade but have not made appreciable gains. The assertion therefore is that though they have huge export levels, this has not affected their income levels positively enough. Mackintosh (2004) notes that this has been the fate of some Sub-Saharan African countries which though have continually exported a high amount of their output have not reaped the gains from the involvement in trade especially in poverty reduction. An explanation for the situation of African countries is that they have not been able to reap comparative advantage through beneficial trade policy, depending rather on increased export of raw materials. In contemporary times, comparative advantage is created rather than endowed. In earlier times, natural resource endowment and scarcity of raw materials determined their comparative advantage and little could be done about it. In present times, comparative advantage is driven by technology, which can be shaped by policy action. The capacity to shape comparative advantage through policy action has repercussion for who gains and losses from international trade. The composition of export determines the gains to be made out of it as already indicated in the early paragraphs. This has a link with how a country is positioned in the international division of labour in terms of its comparative advantage. From evidence, there is much preference for manufactured goods than primary good on the world market. Mackintosh gives a good example of how successful Asian exporters have been in manufactures compared to the export of primary goods in 1945. This difference in the composition of good in trade explains the level of income of a given country. Table 1 below explains the scenario of composition of export in both manufactures and primary goods in the different regions.

Table 1: Composition of export by selected regions in 1980 based on comparative advantage

Region	Primary	Manufactures
Middle-East & North Africa	67	18
Sub-Saharan Africa	55	35
Latin America & the Caribbean	44	44
South Asia	16	63
East Asia and the Pacific	14	73
High income countries	12	68
World	15	66

Source: Author's amended table of Findlay & O'Rourke 2001 cited in Mackintosh (2004).

As shown in the table above, it is obvious that the composition of trade determines the growth of a country, therefore a country with a comparative advantage in manufactures such as East Asia's share of income from trade is likely to be higher than that of a country from the Middle East or Africa with much reliance on primary good exports.

2.2.3 Dynamic comparative advantage

Following David Ricardo's idea of the theory, specialization and comparative advantage offers one-time increase in world productivity and an increase in the level of consumption beyond each country's production capabilities. Once such specialization occurs, however, any future gains from trade for the individual countries depend on the evolution of the terms of trade. And the evolution of the terms of trade depends on factors such as changes in technology, institutional structures of the trade partners, and other factors.

When a country faces declining terms of trade for its exports, specialization and free trade may well be the suboptimal policy choice. The response to such a dilemma is not to withdraw from the trading system, but rather to recreate a basis for comparative advantage. This process of acquiring and abandoning specializations can be achieved through a national development policy based on the concept of dynamic comparative advantage.

A successful development program for less-developed nations would require an emphasis on internal changes that could expand the production of manufactured goods and reduce the importance of the export of raw materials, and other primary products. Optimizing static comparative advantage is no substitute for a more future-oriented analysis of dynamic or created comparative advantage. Violating current comparative advantage and operating within the framework of a less-than-free-trade policy may allow expansion of the future level of economic welfare for less-developed countries far beyond the promises of free trade.

Country (A) may enjoy a comparative advantage in one commodity for a long period of time until it encounters high level of competition in trade from another country. In such a situation, country A is likely to change its comparative advantage to another good in order to maximize returns. As

indicated by Mackintosh (2004) and Tutor U2 (2010), comparative advantage is dynamic when a country is able to stand world market competition and transform its productive capabilities in order to change its comparative advantage over a period of time. And in Mackintosh's view, a country's research institutions and policies play a major role in realizing this transformation.

As shown by Mody (1990), in a dynamic situation, economies learn and adapt to new and challenging opportunities and also take up greater risks while they live up to high standards in a changing world market. The author demonstrates how South Korea and Taiwan have changed their comparative advantage in the electronics industries. Thus buttressing the point that the economy is able to transform based on factors such as higher educational attainment and a great investment in capital and skilled products and a great deal of government policies. Additionally, the author indicates that a change in technology, industrialization and factor endowments can also alter the comparative advantage of a country.

Evidence shows that though South East Asian countries went through liberalization, they did not fully liberalize their economies but rather did this selectively and had a comparative advantage in the sectors that were most efficiently productive. An example is South Korea, which selectively nurtured its infant industries in the 1960s, promoted trade and transformed the country's comparative advantage towards a skill-intensive export as indicated by Mackintosh (2004). The differences in factor endowment need to be considered when making analysis of countries and the benefits they get from trade and how this explains their current comparative advantages. In this connection, 'Africa's exports are heavily concentrated on unprocessed primary products, in contrast with exports from East Asian, which consists mainly of manufactures' (Wood and Mayer 2001: 369).

2.2.4 Industrial Policy and trade

Industrial and trade policy can be seen as a set of policies pursued by governments in order to make gains from international trade. In other words, 'the right way of thinking of industrial policy is as a discovery process where firms and the government learn about underlying costs and opportunities and engage in strategic coordination' (Rodrik 2004:4). Rodrik further notes that industrial policies aim at the diversification of the economy and also the discovery of new sources of comparative advantage and breaking away from the static comparative advantage of most economies. Development strategies can be influenced by the policy environment and allow countries to make choices regarding the best policy. Examples include industrialization through the transfer of technology as was done in the mid 1960s; some of these industrial policies focused on Import led Substitution Industrialization (ISI). Arguments in favour of strong industrial policies emerge from the fact that there must be more gains from trade for the participating countries and also for such industries to grow and stand international competition and also change their old comparative advantage (Forbes and Wield 2002). The authors buttress their point with the case of Japan's implementation of industrial

policies after the Second World War in order to catch up with integration into international trade.

There have been divergent views about whether industrialization should lead to improvement in trade or vice versa. But the argument holds that industrialization is important for trade and development. Following his argument, some schools of thought would argue that the pursuit of industrialization first leads to an improvement in trade while on the other hand, opponents of this may argue that trade improvements leads a country to expand its industrial sector which is likely to alter the comparative advantage in which it currently locates itself. According to Forbes and Wield (2002), industrialization aids development in the sense that it adds value and brings a greater return to scale through specialization and improved technology. Evidence shows movements of countries from the production of commodities which greatly relied on unskilled labour to a more human capital intensive and research based industrialization. For instance, ‘the 1967-1983, Japan’s pattern of specialization in manufactures is found to have changed dramatically with a shift from an unskilled labour intensive goods to human capital and research and development intensive products’ (Balassa and Noland 1999: 63).

There are empirical evidences and examples of countries, especially developing countries, which have expanded their manufactures in exports from their previous primary commodity exports and this has increased their foreign exchange from the export of manufactured exports. For instance, ‘in 1965-1985, manufactured exports from all WB member countries grew at 7.4% a year in volume terms, compared with 5.6% for merchandized trade. Manufactured exports from developing countries grew at much faster rates – averaging 12.2% a year – as these countries increased their market shares in manufactured trade from 7.3% in 1965 to 17.4% in 1985’ (Moran 1990: 161-162).

Drawing from the evidence presented by Moran, it is obvious that there exists a direct relationship between industrialization and growth in incomes from trade. Athreye (2004) and Cramer (1999) give an examples of the “flying geese”, fast growing export manufactures from Asian countries such as Vietnam and India. The argument has proven to be economically viable for some countries that have made gains from industrialization led trade. Additionally as argued by Forbes and Wield (2002), once countries begin to industrialize, they would learn and become masters over time and this would definitely propel their comparative advantage to change from dynamic to a static one.

2.3 From Industrialization to Liberalization: the WB and Mozambique’s Cashew Industry

Mozambique is one African country that has inserted itself in the international market economy through trade and characterized by a diversity of the composition of its export. It shares with most African economies the implementation of the structural adjustment policies prescribed by the WB in the late 1980s with the intention of improving its economic situation and gaining from international trade. While some African Countries like Ghana and Zambia went through policies like SAP and PRSPs, Mozambique pursued a

policy of liberalization. In this regard, the government of Mozambique liberalized its cashew industry in the early 1990s following backings from the WB (McMillan et al 2003). The persuasions of the WB for Mozambique to liberalized one of its functional sectors in trade came from 'good intention' of its economic argument as already discussed in the previous sessions that there would be efficient allocation of resources and incomes would rise (ibid). In order to get the clear picture of the effect of the policy on the country, the section would discuss the situation of the cashew industry before and after the liberalization era.

Prior to Mozambique's implementation of this policy, evidence has it that the cashew industry in the 1960s produced almost half of the world's total export and therefore played a crucial role in its economy as McMillan et al (2003) show. Furthermore, after the country's independence in 1975 the country shifted away from the export of the raw beans and recorded the highest gains from exports of processed cashew beans ever in Africa and increased the number of its manufacturing industries during the 1980s. In other words, reflective of a dynamic comparative advantage, the country successfully negotiated a change from its comparative advantage in raw cashew nuts export to the export of processed cashew beans. The value added led to establishment of increasing number of industries, which in turn sustained Mozambique's dynamic comparative advantage and prosperity.

Between 1991/92 Mozambique liberalized the sector by accepting the WB advice and relaxed its restrictions on the production of the raw nut thus lifting the ban on the export of the raw nut. The period of liberalization recorded some gains according to some pro-WB people who argued that there were increases in farmgate prices for poorer households as well as in raw cashew exports (McMillan et al 2003). On the contrary, though these gains were made, arguments were that the reality of negative effects of liberalization caught up with Mozambique. Although the authors agree that the policy brought some gains, 'they argue that they were minimal, for instance, it was pointed out that estimations from gains from restrictions of export were not up to \$6.5million annually. Also, the additional income accruing to farmers was not more than \$5.13 a year for the average cashew-growing household which is less than four days' wages at the minimum Mozambican wage of \$1.65 per day' (2003: 98, 118). There was an annual growth rate of which its share of GDP was 22.0% in 1980 and further declined as a result of the reform to 11.9% in 1990 and began to fluctuate afterwards recording 13% in 2008 (UNCTAD 2008).

Indications pointed to the fact that gains from this policy were over stated while in reality the policy came under serious criticism. On the one hand, Mozambique made losses in this sector primarily due to the fact that the world market prices for the raw cashew nut become highly competitive compared to the processed nut as the country fell back to the position of the export of its abundant raw material. Following the implementation of this policy, although Mozambique still exported raw nuts, the price for this nut had decreased considerably. Contrary to the logic of the liberalization policy pursued in Mozambique, India's nut remained regularized. India, therefore, imported raw nuts from Mozambique at a cheaper price, processed the nuts and exported them. As indicated by McMillan et al (2003), processed nuts had higher prices on the world market compared to the raw nuts being exported by the

Mozambican trader. The change in policy and practice led the country into a loss in terms of trade in the sector. Since India buys most of Mozambique's raw nuts for processing at such low prices, the question for those against the policy of liberalization is the crucial issue of what may happen to the cashew sector in Mozambique if India does not buy its raw nuts to process anymore (ibid).

As a result of this policy, the economy of Mozambique which was once vibrant in the nut sector was faced with the problem of industrial closure, increased non-functional industries and a rise in level of unemployment by the year 2001. Although Cramer (1999) admits that the policy brought some gains, he states that the failure of the cashew industry in Mozambique is partly the result of the liberalized policies pursued. He further argued that there were inherent constraints which accounted for the industry failure. For instance, the lack of coordination among processing firms coupled with weak institutional capacity of government as well as inappropriate techniques employed among others. Aside this widely accepted factors; Hanlon (2000) adds that factors such as poor governance and management, transparency and accountability within financial institutions account for the collapse of the Mozambican cashew industry. As a result of this most African countries which had donor support in order to industrialize after independence in the 1980s failed due to factors such as scarcity of resources, lack of developed infrastructure coupled with unskilled labour and lapses in policy and management rather than the liberalization policies they pursued. When opponents of the policy became concerned with the state of Mozambique's economic status, the WB backed their policy with an argument that the industry in Mozambique in the early periods of the 1990s was minimal hence thought a more labour intensive technology would be appropriate for Mozambique. In this regard, Hanlon presents a case study which advanced a reason for which Mozambique should export unprocessed cashew nuts, in his argument, the author pointed out that the export of raw cashew nut would lead to an increase in the income of peasant farmers which would probably compensate for the losses in the industrial sector this study however was identified as the basis for the WB to push for the liberalization of the cashew industry.

The effects of the liberalization policy led to an 'outcry' on the part of government, trade unions, the industry and other groups in the country. Their concerns were that there was not much consideration of the effects of the policy on the lives of peasants and how the policy would affect the lives of the peasants thus they also felt there was not much consultation (Hanlon 2000). Evidence from a Mozambican official with regards to their protest to liberalize cashew industry 'the WB told us we must say this is our policy and to stop saying it is imposed by the WB. We know aid is conditional on WB approval and opposed to a policy that would destroy our cashew industry' (2000:37). This protest and others of its kind led to the revision of the policy but much did not change.

The assumption of the bank was met with resistance and arguments were that the position of the bank was only reinforcing an old mode of production in the world trade economy by making the government concentrate on the export of raw nut which suffered world price fluctuations and worst terms of trade. This therefore did not allow the once vibrant economy to make

appreciable gains from trading in the nut. And as discussed earlier this according to proponents of the policy only reinforced Mozambique's position as exporters of raw nuts based on their comparative advantage (ibid). The raw cashew nut export promotion policy of the WB was a direct affront on Mozambican industrialization for several reasons. First, manufacturing firms are clusters of knowledge, skills, and capital. Once firms and industries are destroyed, it is expensive and difficult to rebuild them so that they may not return even if the destructive policy is abandoned (Palley 2008). The WB privileged raw materials export over industrial processing of the raw material regardless. There could be only one rationale for resorting to such an anti-industrial strategy; the view that Mozambique has a comparative advantage in the export of raw materials. Moreover, the policy lacked confidence in the country's capacity to develop a dynamic comparative advantage, or, worse still, the need to escape static comparative advantage (Mackintosh 2004).

2.4 Conclusion

This session has discussed issues of comparative advantage and trade liberalization, it further argued that although it is important for countries to specialize in what they do best in order to make gains, these policies of trade have not yielded the desired outcome in reality for countries engaged in the export of primary non manufactures. The session notes that the theories therefore reinforce developing countries to be in their previous states of comparative advantage and thus have not been dynamic, in conclusion, it discusses a how the policy of liberalization went wrong and destroyed the once vibrant cashew industry of Mozambique which was doing well on the world market soon after its independence in 1975. From the case, it was evident that static comparative advantage yields many gains in a 'closed' economy where capital and labour is mobile across sectors and not boundaries. In the case of Mozambique, this was shown until its comparative advantage changed through a set of industrial policies which made the country make greater gains from trade through the processing of the nuts. However since the WB was not in favour of the country's industrial policy, its status reverted back to the static nature of producing and exporting raw nuts. Thus leading to low gains from the liberalized process. Evidently, this shows that a country's old comparative advantage yields fewer gains in the era of liberalization. However the liberalized policy as pursued by Mozambique reinforced its old comparative advantage of exporting raw nuts.

Chapter 3

PRSP, Trade Policy and Poverty Reduction

3.1 Introduction

The key contemporary economic policy framework characteristic of most African countries in the attempt to deal with poverty is the PRSPs. Therefore, this chapter focuses on the nature of PRSPs and in what ways it differs, if any, from structural adjustment programmes in relation to trade and poverty reduction. To that end, the chapter examines the relationship between trade and PRSPs, a major contemporary strategy for poverty alleviation in most African countries, and discusses its underlying assumptions. The chapter further discusses the origin of the PRSPs and how the PRSPs relate to industrialization policy, as well as its sectoral focus. The case study of Zambia is employed to buttress the argument and highlight the impact of trade policies on employment in the agriculture and mining sector.

3.2 The Origin of PRSPs

Ndulu et al (2006) note that Africa has assumed the face of poverty over the past 45 years and the irradiation of the menace has therefore become an African phenomenon. They show that the continent accounts for about 10% of the World's total population but accommodates about 30% of the poor. This in their view has led to measures by development cooperations to help solve the situation. For instance, the agenda of 'poverty reduction has emerged as one of the main objectives of bilateral and multilateral Aid agencies and this has been declared by the WB as a priority intervention in most SSA countries' (Saasa and Carlsson, 2002:19). In this regard, Africa experienced a moment of severe economic crisis from 1974 through to the early 1980s and this was the period mainly characterized by the increasing rate of aid flow into the economies of the affected countries. The development, however, paved way for the 'giant aid donors' like the IMF and the WB to infiltrate the economies of the ailing countries and dominate their policy agenda, including the choice of the best policy choices for revamping their economies, debt rescheduling and how best to improve the lives of their citizens (Mkandawire 2004).

3.2.1 The SAPs

Most SSA countries have been described as ailing and have been in economic crisis for decades and this has led to their slow economic growth (Logan and Mengisteab, 1993). As a result of worsening economic conditions, these countries were encouraged by the WB and IMF to implement a package of economic policies referred to as structural adjustment programmes from the late 1970s to early 1980s. Structural adjustments are 'policy frameworks which aimed rapidly to recreate developing countries' economies as competitive, export oriented and market led' (Wuyts 2004:353). Furthermore, Messkoub (1992) indicates that these policies were intended to redeem developing countries from debt crisis and correct problems of public expenditure of

governments as well as inflationary problems. Messkoub further indicates that the undesirable state of these economies needed a total overhauling hence the structural adjustment.

Logan and Mengisteab (1993) argue that the SAP made remarkable successes in some economies. For instance, there were increases in GDP and export turn outs of some countries. They show that Ghana during the 1981 implementation of the SAPs realized an increase in its export levels in Cedi terms, thus, leading to an increase in the production of tons of cocoa beans, a major cash crop from 159,000 tonnes (1983-84) to 300,000 tonnes (1988-89). Ghana's implementation experience of the SAP was a success though she recorded low terms of trade in the 1990s as well as questionable export earnings. Logan and Mengisteab noted that adjustment policies must translate into increasing returns as well as better the lives of citizens, but contrary to this, most SSA countries have not been able to realize these gains. Poverty continues to rise in most SSA countries despite the implementation of SAPs. Messkoub (1992) noted that the process of implementation and management of SAPs was dominated by the elites without much involvement of the poor majority who are the intended beneficiaries. The policy therefore became questionable. Trenchant criticisms of the SAPs coupled with economic instability in most SSA countries led to the BWIs' introduction of the PRSPs which have become a dominant policy of most governments from the 1990s. The apparent failure of SAPs to deliver its promises led to the emergence of a new strategy for poverty alleviation in order to amend the faults of the SAPs.

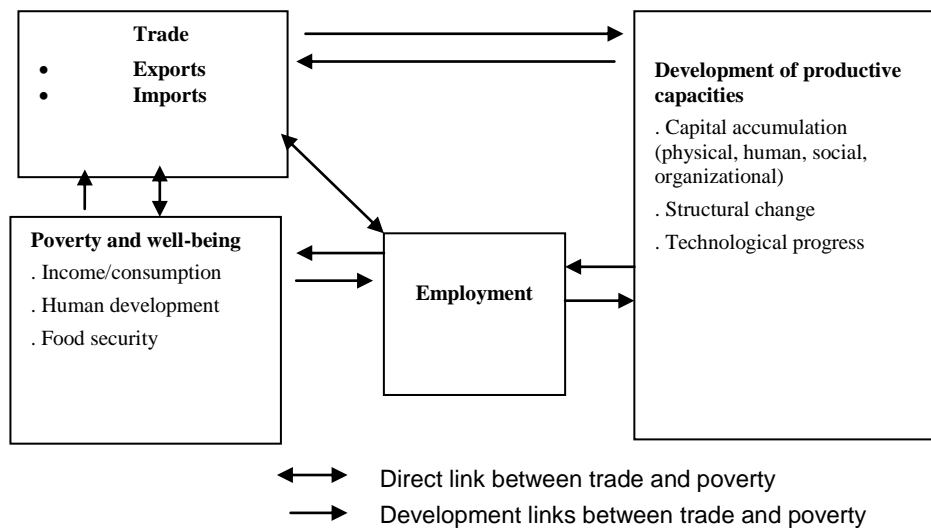
3.2.2 PRSPs

The PRSPs strategy, according to Fraser (2005), is a detailed plan of action by governments indicating their macroeconomic policies, plans of expenditure and a feasible strategy for reducing poverty over a period of 3 years. According to Fraser, there are changes in its mode of implementation from the SAPs. The authors indicate that PRSPs define poverty from a multi dimensional perspective. Cling et al (2003) add that it is participatory and owned by the implementing countries unlike the SAPs. In this regard, Fraser indicates that the PRSPs are a coalition between governments, NGOs, Civil Societies and IFIs who deliberate on the process of implementation. Notwithstanding the idea of participation and ownership of the PRSPs, Fraser asserts that the idea is unrealistic. This is because though the strategy talks much about participation, it is merely information sharing with development actors. Due to minimal input from all actors, most PRSPs failed to influence macroeconomic policies and much has not been realized regarding pro-poor policies. Thus, Fraser describes the PRSPs process as being quite technical, and, thus, 'a technology of 'social control', which seeks to shape domestic political space' (Fraser 2005:2).

Although there have been a move from the SAPs to the PRSPs, not much has changed. Analysis of the new strategy indicates that the core policies of both frameworks are almost the same and what probably changed was the re-naming. For instance, both policy frameworks are geared towards the idea that trade liberalization and openness would lead to growth and this would eventually reduce poverty. William and Mohan (2005) argue that though PRSPs

focuses on poverty reduction, it does not adequately address issues of inequality and redistribution which are key in any poverty reduction strategy. Furthermore, PRSPs have been diagnosed to focus on some specific sectors with the exclusion of other. It does not draw a connecting linkage between sectors and how that interconnection has an overall effect on poverty. Chart 1 below shows the ‘missing’ linkage between trade and other productive capacities which ensures poverty reduction in the PRSPs.

Chart 1: Relationship between Trade, Productive capacities and poverty Reduction.



Source: UNCTAD 2004

The chart above shows a direct and an indirect link between trade, employment and poverty reduction. It shows the relevance of employment in poverty reduction with regards to its productive capacities. However, as explained by UNCTAD (2004), PRSP initiatives pay little attention to this employment poverty reduction linkage. Additionally the chart draws a development linkage between trade liberalization and its stimulation of export production with the assumption that producers are able to respond to price signals. The role of employment in most development strategies has a missing link, hence inability to establish the link between outcomes of economic growth and poverty reduction (Islam 2004). Although it is admitted that there is a link between employment and poverty reduction, this has often been poorly incorporated in poverty reduction strategies even if they admit the poor have the potential labour capable of generating economic growth and poverty reduction.

Even though the adjustment period saw some changes, the effects on the living standard of citizens was below average and it is disheartening to think that Africa still needs a growth rate of about 7% to deal with poverty on the continent. It was further stated that what the adjustments did was to boost the capacities of countries to improve their exports (Ng and Yeats 2000). Nonetheless, the authors argue that the PRSP processes deserve some credit rather than wholesale condemnation due to the inherent problems which

inhibit the participatory process. Unwin (2004) indicates that the process in Africa is represented by an array of stakeholders but the development problem is mostly under-emphasized.

3.3 PRSPs: trade policies and poverty relationship

According to Hewitt and Gillson (2003), most PRSPs in general have not sufficiently dealt with the relationship that exist between trade and poverty but rather there are a few instances where trade policies were identified in sections such as in the case of Malawi, Honduras, Ethiopia among others. PRSPs have implicitly endorsed trade for poverty alleviation in the various countries, 'it is implicitly presumed that financial stabilization and liberalization will necessarily benefit the poor, by eliminating market distortions and in addition to this, all PRSPs have supported the desirability of trade openness in broad terms' (Cling et al 2003: 186). The use of these trade policies as core frameworks in the PRSPs by the BWI is based on the assumption that trade openness creates avenues for the poor to put their productive capacities to use, promote economic growth and to reduce poverty.

They further affirm that although most countries made mention of trade in relation to macroeconomic elements, their main focus was export promotion. To Hewitt and Gillson (2003), most PRSPs broadly identify trade liberalization with minimal attention to import liberalization. The authors assert 'with the exception of a country like Ethiopia, discussions took place for the various approaches that could be used to enhance the export performance of various sectors typically Agriculture, manufacturing and tourism' (2003:8). As discussed in the review of the authors, issues of employment and wages are covered in the PRSP but a gap exists in the relationship between them, productive capacities and trade. They noted the strategy makes an omission in that regard.

There is often very little attempt to clearly draw the link between trade reforms, growth and its effect on poverty reduction. Scholars have argued that trade policy reforms were capable of cutting the world's poverty by half. This is evident in the assumptions of macroeconomic policies, financial policies, and trade openness among others. On the contrary, 'the broad objectives of economic reforms such as market-oriented incentives, macroeconomic stability, and outward orientation do not translate into unique sets of policy actions' (Rodrik 2006:76).

A contrary view according to Hoekman et al (2002) indicates that the WB fails to use such trade policies to support the fight against poverty but rather places more emphasis on other instruments which yielded minimal results with regards to poverty reduction. The authors, however, proposed that in an attempt to have a pro-poor trade reform, there is a need to focus on the development of a trade policy with a focus on the provision of appropriate productive incentives for goods and services and a policy which specifically focuses on distribution linkages with poverty alleviation. They therefore indicate that the failure of most trade policies rests on the desire to achieve a good trade policy and fight poverty at the same time, which is difficult to attain. Rather, they argued that a policy can achieve one objective at a time; condensing a lot of issues together achieves none. They, however, indicated

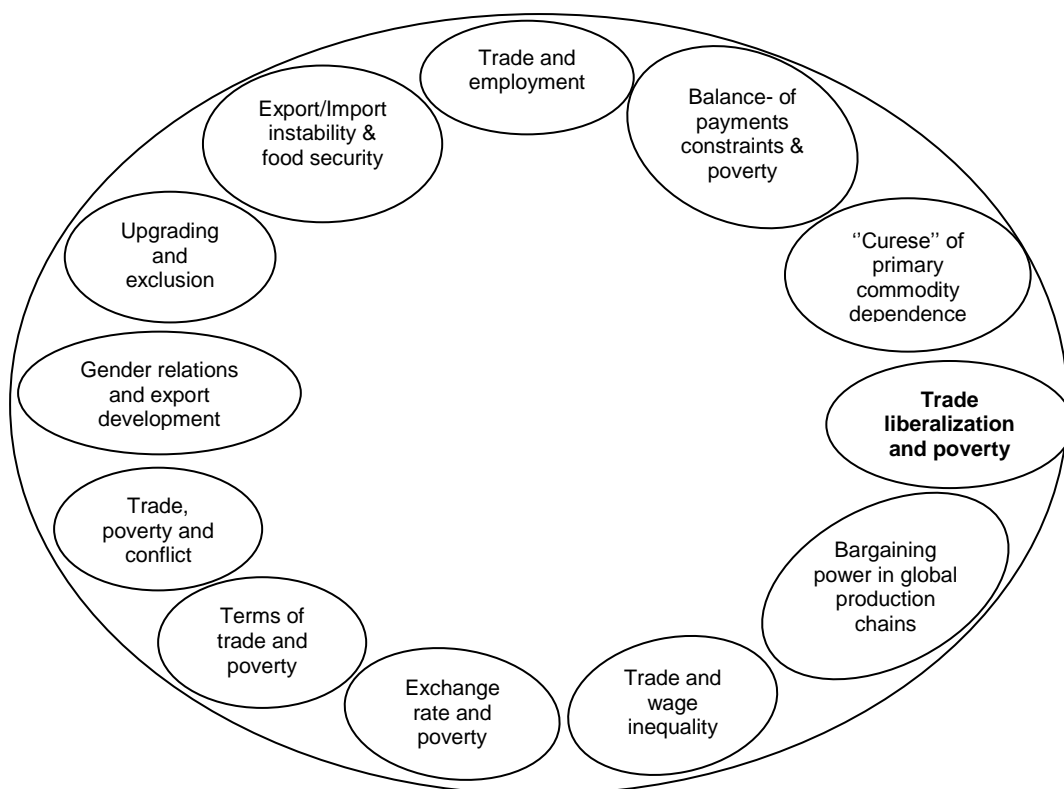
that this is the reason why the redistributive impacts of trade liberalization as well as its designs are questionable and why the PRSPs need to further look at these linkages.

It has been indicated that the basic philosophy of the WB and IMF regarding trade policies is that trade is good for growth and inherently good for the poor and poverty reduction as postulated in the works of Dollar and Kraay (2001a). But until the BWI is able to critically draw a clear distinction between these issues, the objective of the PRSPs remains a novelty which would give the same results as did the previous reforms. Accordingly, both 'national and international policies which can facilitate poverty reduction in developing countries must be rooted in a development-driven approach to trade rather than a trade-driven approach to development thus an exclusive focus on trade, which assumes that poverty is reduced through trade rather than development is likely to prove counter-productive' (UNCTAD report 2004:67).

According to the UNCTAD (2004) report, the strategies do not address the issues of composition of trade imports and exports as a main part of the trade-poverty relationship which ignores the integration of countries into the world economy. However, to achieve sustained poverty reduction through trade, it must be viewed as a development perspective with an all inclusive trade policy that critically encompass the various issues rather than from a short-term perspective as illustrated in the chart 2 below. As indicated in the chart, there is a narrow focus on trade liberalization, trade poverty relations thereby limiting the concern of trade and poverty reduction only to trade liberalization with the exclusion of other crucial issues. Furthermore, there is the need to holistically incorporate all relevant issues when dealing with the two concepts and their relations. PRSPs tend to be narrowly focused on only particular sectors in order to promote trade which may lead to growth with the assumption of it having an effect on poverty reduction.

Although blistering criticisms have been directed at WB trade policies following the ascendancy of poverty and apparent ineffectiveness of WB policies, the former president of the World Bank, James Wolfensohn, in his 1997 board of governors meeting indicated that there was an appreciable progress with the policy implementations in most SSA countries. Though this is not totally disputed, Mkandawire (2004) indicates that 20 years on, the much preached 'accelerated development' has not been realized. In other words, the scholar indicated that no single country was able to 'graduate' from the mere implementation of adjustment programmes to a development and effective policy making which is free from 'conditionalities'.

Chart 2: Chart showing issues to be considered in trade and poverty



Source: UNCTAD 2004

Trade policies have been said to have important role in poverty alleviation through its effect on the rate and sectoral patterns of growth in an economy (Winters 2000). In this regard, the effectiveness of such policies cannot be overemphasized. This has led to the assumption that there are lump sum gains that are realized from trade which, thus raising average incomes in the medium term and an example of such a reform is liberalization and its effect on poverty (Ibid).

Furthermore, he indicates that these effects could affect government revenues from trade taxes and in the long run enable governments channel these gains into pro-poor poverty alleviation programmes. Contrary to these effects of most trade policies, there is less realization of gains which have a ripple effect on the economy's growth rate as well as poverty alleviation programmes which leads to poverty alleviation. As depicted in the diagram above and in most PRSPs, attention is given to a few issues to the neglect of others and this renders the poverty reduction agenda less able to realize its objectives. This paper does not dispute the claim that liberalization policies have positive effects on poverty alleviation, there are however minimal gains from implementation of the policy by various developing countries. For instance, empirical evidence from Winters (2000) indicates that liberalization in Zimbabwe led to the creation of markets for which the poor participated whilst in Zambia such a policy led to the malfunctioning of their maize markets and inability to participate. These examples show that though

liberalization as a trade policy is beneficial; it produces losers and gainers as already discussed in chapter one. A dominant feature of this policy package therefore he described as those aimed at 'getting prices right'. Hence this regulatory policy allows economies to be guided by the world market as described at length in chapter 2. This policy opens economies to competition in the world market but the effects only remain theoretical without the creation of avenues of investment and economic growth.

3.4 Challenging view

Contrary to the highly 'idealistic' assumptions implicit in the PRSPs, they do not differ much from the previous economic policies. Thus "these packages consisted basically of short-term macroeconomic stabilization policies combined with structural policies aimed at liberalizing products and factor markets (Cogneau 2003:52). As indicated by Cogneau, PRSPs do not bring any new dimension to the poverty alleviation agenda but rather duplicate the content of previous policy documents and rebrand them without much effect on poverty, thereby describing the Bank's new strategy as 'a shopping list' without enough evaluation mechanisms. As indicated by Cling et al (2003), the argument by the WB in favour of the PRSPs is that most countries did not own the previous strategies such as the SAPs, following its failure; the main objective of the new strategy is to promote ownership by the concerned governments, empowerment through participation and accountability to all citizens.

Despite the new justification, PRSPs have not achieved much in poverty reduction with regards to its participatory process. In this connection, what exists is mere information sharing among stakeholders with less reorganization of their inputs. Hubbard (2001) gives an example of the Nicaragua water privation service, which was incorporated into the PRSP despite opposition from the civil society and parliament. With regards to the principle of ownership, 'PRSPs are conditions imposed by the BWIs and this from the onset puts a bias on ownership of the process' (Cling et al 2003:160). The authors indicated that for the new PRSPs to be an effective tool for poverty reduction, the Bank's strategy must move towards a more financial stabilization measure through to a decentralized institutional reform which brings decision making closer to the concerned population and promote capacity building and improved functioning of institutions. Otherwise, they stated, these 'PRSPs bring nothing new to the development table but rather remain a simple recycling of previous policies which establish a marginal link with poverty. They further indicate a shortcoming of the PRSPs is its lack of articulation between macroeconomic policies and sectoral programmes and a weak linkage between poverty and inequality' (Cling et al 2003:185). They argue against the PRSP in an attempt to enhance a global economic integration, promote growth in the diversification of exports in labour-intensive product and this was the policy of most strategies in the 1990s and in this comparative advantage scenario.

As a result of this, scholars criticize the PRSPs as 'old wine in new bottles', insisting that much has not changed hence the only major difference between PRSPs and SAPs is the direct focus on poverty (Cling et al 2003:201). The

question arises whether economic reforms and conditionalities have advanced the independence of the SSA economies as propagated by the BWIs. If the answer to this cannot be in the affirmative then, proponents of the underlying philosophies of the BWIs' strong push for the reforms need to be questioned. Moreover, questions arise as to why developing countries continually engaged in these reforms. For instance, some authors have indicated that the process of ownership propagated by the BWIs cannot be credible hence the failure of the PRSP reforms where they have been implemented. Additionally, the institutions do not approve strategy papers until it conforms to "templates" preferable. Fraser (2005) indicates further that if the IMF and the WB reject a government's PRSP, the government would lose access to trade credits, aid and finance and probably default on its debt obligations, its domestic economy could collapse.

Drawing from the arguments by the authors, challenges that characterize the strategy are as follows. Trade policies in the PRSPs are non-negotiable by participating countries, which implies that countries have little influence over such policies hence they have no room to change to suit their specific circumstances. The trade agenda pushed for in the SAPs and the PRSPs focus on specific sector development; mainly stabilization policies which are aimed at enabling countries spend within their means, trade liberalization intended to create a competitive and growth environment to reduce poverty, and issue of 'getting prices right' (Wuyts 2004). Another characteristic of the adjustment policies is that they say less about industrial policies, following from this, African countries trade based on their existing comparative advantage which makes them producers of raw materials without any value addition.

3.5 Effect of Zambia's Market liberalization on Employment in Agriculture

Zambia's trade policies ranged from restrictive quantitative export taxes, reduction in import duties among other liberalized packages. The government through its 2002-2004 PRSP enumerates the following trade policies to achieve growth and reduce poverty; 'a) establishment of a fair domestic and foreign trade regimes to ensure a sound competition, b) export expansion for economic growth, b) identification of market preferences for the country, c) introduction of international trade liberalization, d) diversification of exports into manufactures' (Zambia PRSP: 63). And in order to achieve the objective, measures including establishment of export processing zones as well as ensuring quality of good that enter the domestic and foreign market were adopted.

The policy implementation recorded success in sectors such as the creation of jobs for farmers and miners who provided the industries with raw material to achieve the objective of the country's industrialization policy. This therefore led to improvement in incomes of small-holder farmer household, thus enabling them to have access to social services like health and education. This socio-economic development is however in line with the strategic achievement of economic growth and its effect on poverty reduction in the economy.

Though the policy emphasized the development of industries and increase in export of manufactures, not much was realized in that sector. Following the liberalized policies in the agricultural sector, there was a reduction in output and this had a dwindling effect on the supply of raw materials to feed the industries both in the agriculture and mining sectors. This therefore was as a result of the fact that there were inefficiencies in the copper industries especially, leading to its closure and a negative effect on employment.

Following from the discussion of the relationships between poverty, trade and PRSPs, the paper now discusses the effect of Zambia's domestic market liberalization reform and how it affected the growth of the poor farmers in the agricultural sector. It illustrates that though the strategy resulted in high initial levels of growth, the long-term life span of this growth is not what the poor actually needed for improvement of their lives and poverty alleviation (Dollar and Kraay 2002). According to UNCTAD (2006), Zambia's economy is classified as one of the LDCs and the country has been undergoing structural reforms led by the IMF, WB and other bilateral donors since 1980 (Seshamani 2002). The report argues that the trade and economic reforms as pursued by the country were intended at achieving macroeconomic stability and real growth of the economy since independence in the 1970s. Due to limitations of the previous reforms, the IMF/WB in 1996 endorsed a new framework for poverty reduction in Zambia. This was preceded by the NPRAP, through to the NPRSF which was approved in January 2000 and PRSP which was approved in 2002.

The reforms took various forms such as liberalization of domestic markets and the privatization of dominant state owned enterprises. Despite the implementation of these policies, Zambia is marginalized in world trade. For instance, 'in 1995, the share of exports in GDP was 35.6 per cent, it declined to 25.2 per cent in 2003. Zambia's share in world exports declined from 0.024 per cent in 1995 to 0.014 percent in 2003' (UNCTAD 2006:12). Zambia like most other SSA countries is characterized by poverty even though the economy showed potentials for growth and development at the time of independence. At independence, the economy was referred to as one which had made appreciable economic gain and growth in social welfare due to its endowments with agricultural and mineral resources (Thurlow and Wobst 2006).

The government of Zambia had visionary agricultural policies outlined in its PRSP, this follows from the fact that previous policies in earlier reform did not benefit farmers and its poverty situation. In its 2002 PRSP, the government outlines liberalization policies which it argues was necessary to revitalize agriculture in the country (Zambia PRSP, 2002). The strategy follows arguments of the Berg report and others of the same opinion that liberalization policies were crucial for giant gains and also following from the country's initial agricultural policies of giving subsidies which failed woefully. Before 1990, 'agriculture subsidies accounted for about 20% of government expenditure of which most small holder farmers were into a certain degree of maize production' (Seshamani 1999:7).

In order to amend the situation, policy intent included 'generating income and employment to maximum feasible levels in all regions through full utilization of local resources and realization of both domestic and export

market potential' (Zambian PRSP 2002:54). In this regard, Government gave subsidies which enabled the production of maize, a staple and dominant crop; these subsidies included fertilizers and other farm inputs to farmers. The intent was to create a forward and backward linkage, and utilize the labour potentials in the sector to increase growth and reduce poverty. That way the country would achieve growth in export of commodities as well as ensure food security in the country which would create employment for the sector. As indicated by Jayne and Jones (1997), liberalization of agricultural markets are intended to lead to high growth rates and better living standards of small-holder farmers and ensure market stability in most African countries but this may not necessarily be the case. They indicate that these reforms have created a dwindling effect in production due to the total removal of subsidies. For example, Zambia before the reform era in 1992 had appreciably high levels of maize production. It produced 753.00 metric tons of maize between the periods 1975-78, and the production level increased to 1056.00 metric tons in 1980-84. The country experienced further increase, producing 1618 metric tons of maize in the period, 1985-89. However, as stated by the authors, the prosperous growth in maize production began to fall when Zambia was persuaded by donors to totally withdraw its subsidies to farmers.

Removal of subsidies which initially protected local producers from foreign competition led to imports of fertilizers, seeds and other inputs, 'resulting in the abolishment and privatization of most parastatal agricultural marketing boards in the country such as the National Agricultural Marketing Board' (Zambian PRSP 2002:54). However, government's aim of achieving sound trade liberalization and pricing policy as envisaged in the strategy fell below expectation. Although there were increases in output per kg, evidence also showed that the increasing prices of farm subsidies made it difficult for small-holder farmers in the remote areas to have access to them. This therefore led to a fall in output and subsequent drop in the volume of crops leading to a government deficit (Seshamani 1999). For instance, for the period 1990-95, production dropped to a low 1304 metric tons from the high mark of 1618 metric tons recorded in the preceding period, 1985-89. The fall according to Seshamani, Jayne and Jones (1997) was not as a result of the drought but rather that of the liberalization policy. This was because most farmers had no money to purchase fertilizers which had been relocated to private boards and other inputs to increase production.

The effect of the reform led to micro-economic instability and rural poverty began to soar. As indicated by Seshamani (1999), there was a fall in production which resulted in insufficient income for the small-holder farmers. As a result, farmers in remote areas of the country reverted to the cultivation of non-maize food crops like millet and sorghum due to its artificial profitability as a result of the removal of price subsidies for maize. They noted that despite the growth in the agricultural sector, there was not much effect on the national inequality situation. For instance, Thurlow and Wobst (2006) indicated that the Western and Eastern provinces which had a larger production of cash-crops such as cotton remained poor and isolated.

Poverty was on the increase in other places like Central, Copperbelt, Luapula, Lusaka among others. This therefore indicated that though the adjustment realized a certain level of growth, it was only short-term.

Consequently, Thurlow and Wobst (2004) argue that for Zambia to reduce poverty its development strategy must not only focus on the acceleration of growth but must also promote the participation of the poor in the growth process, this they indicate is a crucial component of poverty reduction which is absent in most adjustment reforms. According to Saasa and Carlsson (2002), the main effect of market liberalization was the removal of transport, fertilizer subsidies and other agriculture credit which had a crippling effect on farmers. Most small-holder farmers of whom about 90% still remain extremely poor could not afford farm inputs, and secure food for their households. Thus Eberlei (2007) notes that the Zambian Government and donor community showed weaknesses in the implementation process of the reform. The 2002-2005 Report on Participatory Poverty Approach in Zambia, indicates poverty situations in most communities were still on the increase, there was limited access to resources with regards to women especially in the Eastern Province. For instance, it indicates that most farmers complained they did not get access to farm inputs.

There were also cases of farmers who complained that officers gave fertilizers to their friends thus rendering the poor very poor in spite of the interventions to improve their living status. Although these policies had been on for two years and more, trade in maize has dwindled. Yet, the trade component of the PRSP has not been modified to reverse the setback in maize production. This however made the trade component remain static, not dynamic, and therefore not capable of dealing with new situations. The wider implication is that even though it promoted growth, it was not capable of converting the country's static advantage in raw materials exports to a dynamic one. Therefore, the potential growth that could have been generated would be temporary as further growth leads to market glut and falling prices.

According to Hewitt and Gillson (2003), the trade policy as enshrined in the country's PRSP was specifically targeted at benefiting poor vulnerable small-holder families but this assumption did not materialize hence the effect of the policy worsened the plight of the Zambian small-holder farmers than the achievement of the intended purpose. From the review above, it is evident that the market liberalization which was implemented had adverse effects on the incomes of small-holder farmers, as a result of inability to afford inputs, most farmers dropped out of their labour force in the agriculture sector. Additionally, the fall in the output of maize production crippled the comparative advantage Zambia's previously enjoyed. This case is a revelation of how Zambia enjoyed benefits of trade from its massive maize production, but in the liberalized era, its old comparative advantage could not stand competition. This therefore led to the defects discussed above.

3.6 Conclusion

This chapter has tried to discuss how PRSPs deal with trade and its relationship with poverty. From the reviews of the various authors, it is evident that PRSPs almost reduce trade issues to issues of export promotion and trade liberalization. Although most of them mention lines of trade and poverty in some sessions of the document, less is done about how to actually transform trade issues to reduce poverty, the greater focus of most governments is often

to achieve growth and enhance exports, they therefore show a very minimal relationship between how crucial productive capacities can help in trade improvement and poverty reduction. The chapter ends with a review of the effect of the BWT's adjustment policy on the lives and economy of Zambia after its independence in 1964. It is evident from the discussion that the PRSP process had a positive effect on the output of grains and this increased the standards of living of Zambian farmers. Though improvement was recorded in areas of school enrolment with the help of the school feeding programme, and the provision of portable water and sanitation, much needed to be done in other sectors.

But on the larger scale, as discussed by some authors above, the long-term effect of the policy was 'short lived', situations further deteriorated, due to the liberalized policy which was a key element in the strategy, most small farm holders who made appreciable gains from agriculture, had no or little access to farm inputs leading to a drastic reduction in the level of their yields and this made the poverty situation severe in some regions such as the Western and copperbelt regions.

Chapter 4 Alternative Perspectives to the Dominant Policy Framework?

4.1 Introduction

In the preceding chapters, this paper discussed issues of comparative advantage and how a country's position in the international market determines the gains made. Additionally, the paper looked at the relationship between trade policies and poverty from a theoretical perspective, with particular focus on how PRSPs deal with trade in Africa. It was noted that both in theory and practice, PRSPs invariably reduced trade to issues of liberalization and increased exports. The failure to make a clear distinction between trade policies and liberalization goes a long way to explain why the intended results of the BWIs poverty reduction strategy has not yielded the desired cargo.

Furthermore, the paper has tried to look at how policies failed to reduce poverty and enhance the efficient use of labour in the examples of Mozambique and Zambia. In this regard this chapter looks back at the problems of policies in the PRSPs, what alternative trade arrangements have been proposed, what critiques say about these arrangements and how they challenge the dominant view of policies in SAPs and the PRSPs. The Chapter further probes the question whether Africa stands a chance of making giant 'gains' from such arrangements or whether it is a reinsertion of African economies in the conventional framework of comparative advantage.

4.2 PRSPs and competing views

There must not be a one way strategy to development just as there must not be one prescription intended to work for all countries. In this regard, Rodrik (2007) notes that universal principles of policies towards development are not likely to achieve the desired results. According to him, "standard recipe" policy choices leave countries in a dilemma as to whether they have to fully open their entire economies to trade or which best policy choices they must make. For instance, he cites the example of how the Washington Consensus quickly jumped to conclusions regarding reforms and how they are intended to promote growth in Africa without much consideration for the varying degrees of institutional differences inherent in these economies and, as a result, their policy advice performed woefully below expectation.

Rodrik (2007) was quick to point out that countries such as Botswana, China and South Korea's selective subsidization which have achieved high economic growth pursued both orthodox and non-orthodox reforms and policies. This he posits was contrary to the advice of the BWIs on liberalization. Following the setbacks in these economic policies especially those in the PRSPs 'this calls for an approach to reform that is much contingent on the economic environment, but one that also avoids an "anything goes" attitude' (2007:56). Backed by his argument is the fact that strategies must take into consideration the peculiarities of the different settings and this makes an economic sense since it allows for understanding the policies

that work better in different parts and takes into consideration the constraints and potentials available for the countries.

Furthermore, he notes that although SSA countries have a strong history of reforms over the years such as opening up to trade with a restricted interference of the states, the continent has not been able to record appreciable results. This in his analysis of the Washington Consensus and subsequent reforms, they have been bedeviled by the fact that they are not specific at the strategy which would help these economies achieve the much preached stability and growth in order to better the lives of its citizens and reduce poverty. Rodrik (2007) did not refute the idea that China, in order to develop and record high growth rates, pursued policies similar to those implemented by countries in SSA. But what the Chinese did differently was that of a grafting kind of purposive liberalization in order to compete in the world market. Contrary to the Chinese logic, however, Rodrik asserts that the fundamental solution of the West is the prescription of outright breaking down of barriers to import which in turn does not favour such economies. Given the varying policy options and outcomes, it is pertinent to ask what other trade arrangements are available, and whether they in any way present any challenges to the orthodox perspectives of the SAPs and the PRSPs era.

Following from the previous chapters and relevant country examples, it is obvious at this stage that a little assessment of how the policies have worked is in the right direction. Although the PRSPs enumerated benign policy objectives, the realization gradually dawned following years of policy implementation that the programmes have not performed as expected in terms of poverty reduction. A brief assessment of the policies therefore indicated some lapses which inhibited its success.

4.2.1 Employment and Trade policies

Employment

With regards to employment, the adjustment policies have implicitly focused on trade promotion with emphasis on liberalization and openness policies. Following the discussions in chapter two, it was obvious that most of these policies did not create efficient backward and forward linkages between trade and employment issues. Although the policies emphasized trade integration and other reforms, there was a missing linking such reforms with efficient employment opportunities capable of utilizing the available labour potentials (UNRISD 2010). As argued by the UNRISD report, although majority of the world's poor engaged in agriculture which is backed by a number of policies such as market liberalization as in the case of Zambia, these farmers largely remained poor. The report further argues that though the reforms were intended to improve the sector, it did not have an effect on the poverty situations. Thus, majority of poor small-holder farmers were mainly working poor.

Furthermore, Wuyts (2002) argues that although PRSPs try to promote some kind of employment by absorbing the labour force in gainful employment, there has been a weak linkage between these economic policies and poverty reduction. In addition to this, the strategies focus more on other

sectors with the promotion for social policies. In this connection, Messkoub (1992) argues that the adjustment era came with a 'human face'. As part of these there were provisions like portable water for the poor and deprived people, provision of schools and health facilities, school feeding programmes for children of school going age. These welfare provision which were part of the adjustment recorded positive results but as Messkoub argues, these were not sufficiently channeled to reduce the massive deprivation among the poorest population and hence poverty remained an issue to be grappled with.

As a result, the UNRISD (2010) report has called for a reintegration of employment into economic policies, in this way; it would lead to distribution among the poor populations of the world. According to Driscoll and Evans (2005), although the PRSPs have chocked some successes, the major weakness that needs much attention is the weak linkage between social and other productive sectors. In their analysis of the lapses of the strategy, they note that there is a gap in integrating social sector plans to other productive sectors of the economy. Thus, there is a gap in the pro-poor growth strategies and how they intend to achieve a poverty reducing impact on the poor. The broader picture that the strategy needs to consider is a great force of integration among the various sectors and institutions rather than the concentration of the whole plan of action on one organization. Additionally, there needs to be a bridging of the gap of spending on social sectors such as health and education in order to achieve a holistic poverty reducing effect.

Trade Liberalization and Openness

Furthermore one shortcoming of the trade policies of the PRSPs is in the liberalization and openness policy. This follows arguments of proponents and the Bank that this would integrate economies into the trade regime and enable them gain appreciably but contrary to this philosophy, this has not created the needed growth environment to deal with the poverty status of these countries, in other words these policies have not had the necessary effect to reduce poverty. Evident from the review and extensive discussion on this in chapter one, it is obvious that this policy has reinforced in most circumstances, the state of countries trading on their existing comparative advantage. There has not been a success in the efforts of these countries to move towards a dynamic comparative advantage which is capable of producing gains in a liberalized economy.

Industrial Policy

With regards to the PRSPs and industrial policy, the strategy has been much in favour of the push for an industrial policy in most of the developing countries. There have been arguments that industrialization has the potentials of improving trade (Rodrik 2004). Evidence from the East Asian countries show that selective industrial policies helped to promote and record high levels of growth. Yet the WB trade policies have to an extent frowned on sound promotion of industrialization despite the common view that such could lead to a change in the comparative advantage of countries. Although some countries have pursued some kind of industrialization, this was discouraged by the Bank and the economies concerned subsequently reverted to their existing comparative advantage; trade in primary produce. For example as discussed in

chapter one, Mozambique had an industrial policy which added value to its cashew production and earned high gains from trade after its independence, the country recorded high growth rates in this era and the industry was vibrant as indicated by (Cramer 1999). It is evident that most East Asian countries did not pursue the dominant policies 'preached' by the BWIs such as those in the PRSPs to develop. Nevertheless, these economies achieved appreciable impacts on poverty issues. This therefore illustrates that all economies must not pursue the same trade policies in order to develop as argued by Rodrik (2007). What these economies pursued is more of an industrial policy which is contrary to the views of the PRSPs. This therefore challenges the concept of trade policies as a way out for countries to develop.

However, following persuasions from the BWIs regarding inefficiencies in the industrial sector and arguments that the country could trade better if it exported raw nuts, Mozambique resorted to export of raw nuts, an action which saw its industries collapse just as its existing impressive growth rates dwindled to a disturbingly low level. Analysis of the country's performance in trade following reform indicates a failure of the liberalization policy implemented by Mozambique with the active support of.

As a result of the failure of the trade policies in the PRSPs, there emerged arguments about whether countries should follow the same paths to achieve growth and reduce poverty. Critics observe that the macroeconomic and trade policies which characterize the PRSPs seemed to be a 'one size fit it all'. Moreover, they observed that there is little evidence that if the policies succeeded in a country then they necessarily would in others. Following this, critics have questioned the idea of developing countries following the same development trajectory, raising the question of whether there are alternative arrangements that could be looked at.

4.3 Alternatives to dominant frameworks: what spaces do African economies have to maneuver?

following the discussion on the shortfalls of the PRSPs' policies, the paper questions whether there are any alternate choices that offer a greater room of freedom to African countries to maneuver with regards to the trade and poverty relations. A number of trade arrangements have emerged in the development arena in recent times and there have been concerns regarding this newly emerging donors or trade partners and whether they pose any challenge to existing development perspectives. For the purpose of this work, the paper discusses the EU/ACP arrangements and the emerging corporation between China and Africa, and what they present in respect to trade and poverty reduction. In this regard, de Haan (2010) discusses whether these are new donors and questions what new perspectives they bring unto the development table. In his discussion, he presents the role of China both in political and economic terms and how this is likely to influence development particularly in Africa. Several concerns have been raised regarding what this new partnership holds for development. Following this, de Haan indicates that it is necessary to look at what this really means for development in taking into consideration his experience in working with DFID in China for a number of years.

Questioning the emergence of China, Kaplinsky (2006) puts the question thus; 'why is China important?'. For example, he indicates that China's increasing trade structure has increased rapidly in comparison to its regional groupings over the past two decades. Additionally the PPP of China grew appreciably and it also recorded an increase in Per Capita Income from 8% in 1980 to 9% in the 1990s. This saw a massive increase in its trade GDP to 55% which Kaplinsky records was higher than the average global ratio of 47% in 2002.

In trying to answer this 'puzzle', Jenkins and Edwards (2006) indicate that China is probably engaged in the trade relation with most SSA countries in order to have imports from the latter economies. In this wise, China itself does not 'deny' this but admits that she is in for business. Some scholars explained that this is for demand for primary commodities from African countries. Furthermore, it is indicated that the bulk of the exports from the African regions comprises commodities which are intended to boost the economy of China as well as keep its industrialization alive.

Contrary to the argument of Jenkins and Edwards (2006), Brautigam (2009) indicates China was in for business with good intentions. Unlike the case of the PRSPs and other loans from the WB/IMF, which provided huge sums of aid to governments that excelled in areas of good governance and in support of their budgetary allocations, China did not give cash to African governments in order to support their budgets. There have been a number of Chinese activities over some parts of Africa such as Tanzania-Zambia Railway at the cost of \$450million, commerce in Sierra Leone in its deal with the wireless telecom among others. Following the trade agreements with Africa, the author indicates that trade between the two partners has increased over the years from \$10563.5 million in the year 2000 to \$18487.1 million in 2003 (de Looy 2006). Thus, China's relation with SSA countries is industrialization-led. Brautigam further argues that China is breaking down the ideals of the Washington Consensus, including meeting certain criteria such as cuts in budgets among others before receiving aid. While this may be true, China is often accused of tying aid to their products. This however means that aid receiving countries must patronize such goods. Moreover, there is the accusation that China often imports its labor into recipient countries to undertake development projects. Although China has over the years established a strong trade tie with most African countries, there is a lot of skepticism as regards the future of these countries. The kind of cooperation coupled with development infrastructure in most of the countries has led to high economic growth in cases such as Mozambique and others, but the worrying aspect of the arrangement lies in whether African countries would be capable of transforming this into sustainable growth patterns to actually promote employment capabilities as well as transform its comparative advantage. In other words, would the new cooperation foster an entrenchment of Africa's status as producer and exporter of raw materials, or help the continent achieve dynamic comparative advantage, trade competitiveness and poverty reduction?

Rodrik (2007) is of the view that the Chinese model presents a good alternative to existing development cooperation, particularly in light of the

Chinese industrial policies and other factors such as harmonization of their institutions to those abroad. The diversity in the nature of the strategy adopted by China in dealing with other countries is laudable because it combines local experimentation with economic activities which allows for use of local knowledge in order to sustain market economies and efficiency.

An earlier and more pervasive trade arrangement that has engulfed Africa's development agenda is that between EU and ACP countries. According to Smith (2008), the EU's trade agreements in the framework of economic, commercial matters and trade liberalization date back to the 1960s as a historical relationship with a development cooperation which focused on poorest countries who received aid at preferential rates compared to others with the intention of providing aid and access to trade to the EU market.

Collier and Gunning (1995) indicates that, one unique thing about this agreement is the regional integration of trade among African countries which was missing the PRSPs. This they argue allows for a freeing up of global trade with much gain and also reduces problems of several bargaining members in the process. Like many other emerging trade agreements, the EU has signed this partnership with a number of ACP countries with the objective of advancing trade in order to eradicate poverty in a sustainable manner as indicated by EUROSTEP (2004). As argued by the report, the promotion of trade arrangement by the EU is to be achieved through a reduction in trade barriers.

Although the EU tries to promote a regional integration in terms of trade, much has not been realized in terms of poverty reduction. There are a number of development projects in the sub-region, such as the Stabbex programmes in Ghana where assistance is given to cocoa farmers and the rural micro-projects in the form of infrastructure provision such as schools and boreholes for portable water. Despite the fact that these projects had an appreciable impact on the lives of people, its impact was too little to generate the require growth and reduce poverty considerable.

Contrary to the achievement of the poverty reduction objective, the EUROSTEP (2004) report argues that most countries expected to dismantle trade barriers to their export would be at a huge loss which would have a negative effect on social sectors of the economy. This is manifested in the restriction of entry into the EU market of most produce from the ACP states. For example dairy products and sugar from Jamaica face massive restriction from the EU market, while such products from the EU have dominated the markets of Jamaica. This has had a negative impact on the country's industrialization, employment and incomes. Moreover, the agreement is quite restrictive in terms of value addition, not much change has been realized in terms of Africa's export of raw materials.

The EU-ACP trade arrangement provides little space for maneuver because its emphasis is on the promotion of raw material exports and liberalization of the economy. It has little or no provision for the nurturing of dynamic comparative advantage and industrialization. For instance, the tomatoes industry in Ghana has done badly as a result of the dumping of processed and relatively cheap tomatoes in the economy. Yet, the trade arrangement has not considered how Ghana can diversify into the processing

of tomatoes in such a way as to compete favourably with Western producers. Moreover, while raw material exports might benefit the poor in the short-run, it levies negative impacts in the long-run. Massive supply of raw materials often lead to glut in the international market and dwindling market prices with devastating impact on poor farmers. Such basic economic wisdom suggests the need for emphasis on the development of dynamic comparative advantage and industrialization. Such considerations are given little thrift in the EU-ACP trade arrangement.

In effect, the trade arrangement fosters the traditional practice, which consigns SSA countries to static comparative advantage in production and export of raw materials. Worse still, the trade arrangement, while not openly stating what SSA countries can and cannot do, actually frame what space SSA can think, imagine and act. The insistence on liberalization and raw materials export, and silence on industrialization and development of dynamic comparative advantage, gives little room for SSA countries involved to think outside the box. Even if they do think outside the box it is arguable that novel ideas that challenge the core assumption and premises of the pact can be entertained.

4.3.1 What is in this for Africa's development?

Following the criticisms and shortfalls of the PRSPs in relation to their policies regarding trade and poverty, the assumption of many would be that these newly emerging trade arrangements would provide an alternate choice to the development platform, this session now discusses the challenges to the orthodox donor and questions whether they present any room for the countries to have any degree of freedom.

One thing that stands out according to Brautigam (2009) in the way of aid business to Africa is "the content of Chinese aid seems to present quite a new phase to the trade and poverty issue with regards to the content and norm of aid. In effect, its aid giving compared to the orthodox aid agencies is simpler and centered on areas such as infrastructural provision, educational scholarships and issues intended at making the lives of the poor more dignifying which, as she argues is an aspect of aid giving or development mostly downplayed by the traditional aid donors. For example, she mentions Zambia and Mauritius which have benefited from this union. Zambia, an economy rich in ore exported the raw ore under the WB/IMF structural adjustment era and circumstances led to its collapse. But she indicates that the collapsed industry has, however, been revamped under Chinese assistance; a result of its investment. Further to this was the signing of an agreement between Zambia and Chinese government, the purpose of which was to establish an industrial chain in Africa in order to process the raw minerals to add value to its export. For instance, the extension of electricity projects in Goma in Sierra Leone. As narrated by Brautigam, prior to this initiative, many homes were in darkness and most household slept in total darkness. But the coming of the China National Electric Equipment Corporation (CNEEC) after the war extended power to most houses

4.4 Conclusion

This chapter attempts to discuss how the policies in the PRSPs have worked by looking back from the discussions in chapter two with regards to issues of employment and social provisioning, industrial policy and liberalization. It then discusses arguments about the alternate trade arrangements and how they offer a room for countries to make choices without wearing the 'one size' jacket as discussed by Rodrik (2007) as well as the potentials they present for development. The interesting issue about the emergence of China in Africa and its trade cooperation is that China ties its aid giving to development activities. It does not only give aid as was done by the traditional donors (Brautigam, 2009). Furthermore it was revealed that China does not ask for conditionalities for aid given for Africa's development. From the arguments presented by the various scholars, it is evident that most of them see some kind of alternative in these emerging trade arrangements.

But what the paper has not empirically proven is whether these agreements "flooding" the African development agenda are capable of transforming the continent's plight into an appreciable one where higher growth rates would be recorded with a giant impact on poverty. But one thing that runs through the discussions of trade agreements between Africa and China, and the EU is the reinforcement of the continent's comparative advantage in producing and exporting raw materials. For example issues of restrictions into the EU market has dashed the industrial dreams of most ACP countries, for example, Ghana continues to export raw produce such as banana likewise Cameroon, Benin, Jamaica among others. There is no frantic effort by the EU to promote industrial policies in order to transform the comparative advantage of the region. As discussed in chapter one, this reinforces the static comparative advantage of most ACP countries as was evident in the Mozambican example. However the essence of these arrangements is intended to promote growth and put Africa in the high growth position of where these industrial nations are now. But if this cannot be achieved even with these arrangements then it is obvious that Africa is flying in a wrong direction and would miss the path of growth it desires.

Chapter 5 Final Consideration

The paper has as its objective investigation of the links between trade policies and poverty reduction from the PRSPs perspective. The results of analyses executed in the previous chapters are briefly presented below.

5.1 Trade Policies

Discussions in the various chapters reveal that trade policies are relevant in order for a country to insert itself in global division of labour. As indicated in the works of Mackintosh (2004) and others in chapter one, countries cannot opt out of trade even if they do not make appreciable gains. Moreover, trade policies in themselves are not 'bad' per se but other factors inherent in the economies of developing countries such as mal-administration have made such policies not to achieve their objectives. But the bigger picture shows from the study that countries are affected by the kind of policies they implement. For example this was shown in the Mozambican case study of how a WB liberalized policy crippled its cashew industry. The research also reveals that a policy such as comparative advantage can change over time with the help of industrialization policies as was seen in the examples of South Korea and Taiwan. On the contrary, if a country's comparative advantage remains static; its ability to make gains from trade may be minimal.

5.2 Trade, Poverty and PRSPs.

The study indicates that trade has a link with poverty reduction as indicated by the review of the authors in chapter two. Although most of the authors cited in the chapter argue that trade has an effect on poverty, the premier focus of trade policies however must not be poverty reduction. Rather this can happen through a multiplier and distributive effect. With regards to the research question, the study shows that PRSPs occasionally referred in a few lines to trade although the greater focus is on other strategies to restructure economies and reduce poverty.

Furthermore, the study asserts that although most African countries have drawn up PRSPs, they scantily detail out what their trade objectives are. However most of the PRSPs focus on how to achieve macro-economic stability by using economic tools. Additionally, what most PRSPs referred to as trade promotion meant the production and export of commodities, horticulture among others. Much focus is not on how to gain from trading with other countries through the use of appropriate policies. In this regard, this research question remains quite unsatisfactorily un-answered, this is because evidence has shown that little attention is given to trade related issues. The study also reveals that these PRSPs have become a tool for accessing aid hence have become more like templates which a country needs to access aid.

5.3 Alternative trade arrangements

Following the review of works by Rodrik (2007) and De Haan (2010), Africa's development agenda has seen a move from the orthodox policies of such as those discussed in chapter two to real agreements. The authors argue that, such agreements bring new perspectives into the aid and donor arena. For instance, De Haan argues that the China-Africa cooperation seems to present a different approach to giving aid to Africa. It combines this with development projects in the areas of infrastructure. Brautigam (2009) indicates that China justifies its development approach by the claim that it is itself a developing country and knows the importance of infrastructure in development. Additionally the study reveals that China does not actually tie down its aid to conditionalities which countries must fulfill in order to access aid.

In conclusion however, the study admits that there are minimal differences in the way the EU and China go about their aid business and their objective to help Africa develop. Based on this, the study emphasizes that there is one common 'denominator' that runs through all the organizations, that is the BWIs, the EU and China; all aim at poverty reduction and development which is their long term goal. The differences therefore come in the approaches that are adopted to achieve these results. The study also reveals that there is not much difference from the ideologies of giving aid although China has tried to divert from the norm of the traditional aid industry.

Evidently, China's approach is admirable and presents Africa with an opportunity to develop. What needs to be done, therefore, is the need for African governments to critically assess the contents of the aid package and make the best policy choices. Furthermore, African leaders should not be enthused about just receiving aid but must be weary of how 'effective' the aid is for development. Looking back at the era of SAPs and the PRSPs therefore must present them with a good lesson in receiving aid and a critical reconsideration of the 'holly alliance' with China would enable them achieve development and reduce poverty on the continent. The underlying issue therefore is that from the evidence of the aid strategies which were implemented, there is a need to assess the content of recent support and the best opportunities they present. This if done carefully, would make the 'mutual' benefit propaganda being preached by China in their cooperation a good alternation to the poverty reduction strategies.

References

- Athreye, S. (2004) Trade Policy, Industrialization and Growth in India in S. Bromley, M. Mackintosh, W. Brown and M. Wuyts (eds) *A World of Whose Making? Making the International: Economic Interdependence and Political Order* pp: 173-213, Pluto Press, London.
- Balassa, B. and M. Noland (1999) The Changing Comparative Advantage of Japan and the United States in H.W. Singer, N.Hatti and R. Tandon (eds) *North- South Trade in Manufactures*, Indus Publishing Company, New Delhi, pp:63-79.
- Bhattacharjea A. (2004) Playing by the Rules? Developing Countries in the World Trade Regime in S. Bromley, M. Mackintosh, W. Brown and M. Wuyts (eds) *A World of Whose Making? Making the International: Economic Interdependence and Political Order*, Pluto Press, London. pp: 11-31.
- Brautigam, D. (2009) *The Dragon's Gift: The Real Story of China in Africa*, Oxford University Press, New York.
- Cling, J.P M. Razafindrakoto and F. Roubaud (2003) Poverty Reduction Strategies: Old Wine in New Bottles?, in J.P. Cling, M. Razafindrakoto and F. Roubaud (eds) *New International Poverty Reduction Strategies*, Routledge New York, pp 180-202.
- Cogneau, D. (2003) Poverty, Inequality of Conditions and Inequality of Opportunities: Chances and Risks of New Strategies in J.P. Cling, M. Razafindrakoto and F. Roubaud (eds) *New International Poverty Reduction Strategies*, Routledge New York, pp51-74.
- Collier, P. and J.W. Gunning (1995) Trade Policy and Regional Integration: Implications for the Relations between Europe and Africa, *The World Economy*, Vol. 18(3):387-410.
- Cramer, C. (1999) Can Africa Industrialize by Processing Primary Commodities? The Case of Mozambican Cashew Nuts, *World Development* 27(7): 1247-1266.
- Cypher, J.M and J. L Dietz (1999) Static and Dynamic Comparative Advantage: A Multi-Period Analysis with Declining Terms of Trade, *Journal of Economic Issues*, Vol. 32(2): 305-314.
- de Haan A (2010) 'Will Emerging Powers Change International Cooperation?. Implications of China's Foreign Aid for Dutch and Other Donors', Article for *The Netherlands Yearbook on International Cooperation*

- de Looy J.V (2006) Africa and China: A Strategic Partnership?, *ASC Working Paper* 67/2006, African Studies Centre, Leiden, The Netherlands.
- Dollar, D. and A. Kraay (2001a) *Growth is Good for the Poor*, World Bank Policy Research Development Working Paper No. 2587, Washington.
- Dollar, D. and A. Kraay (2002) Institutions, Trade and Growth, *Journal of Monetary Economics*, Vol.50: 133-162
- Driscoll R and Evans Alison (2005) Second-Generation Poverty Reduction Strategies: New Opportunities and Emerging Issues, *Development Policy Review* Vol.23(1): 5-25
- Eberlei, W. (2007) *Accountability in Poverty Reduction Strategies: The Role of Empowerment and Participation*, Social Development Papers: Participation and Civic Engagement: 104
- Evans, D. (1990) The Long-Run Determinants of North-South Terms of Trade and Some Recent Empirical Evidence in H.W. Singer, N.Hatti and R. Tandon (eds) *North- South Trade in Manufactures*, Indus Publishing Company, New Delhi, pp: 227-254.
- Forbes, N. and D. Wield (2002) *From Followers to Leaders: Managing Technology and Innovation*, Routledge London.
- Fraser, A. (2005) Poverty Reduction Strategy Papers: Now Who Calls the Shots? *Review of African Political Economy*, Vol. 32(104/105):317-340.
- GAWU, DHS, CIECA, ADEID, GRAPAD and EUROSTEP (2004) *New ACP-EU Trade Arrangements: New Barriers to Eradicating Poverty?* Executive Summary (downloaded October, 2010), http://www.eurostep.org/pubs/trade_study.
- Hanlon, J. (2000) Power without Responsibility: the World Bank & Mozambican Cashew Nuts, *Review of African Political Economy* 83:29-45, ROAPE Publications Limited.
- Hewitt, A. and I. Gillson (2003) *A Review of Trade and Poverty Content in PRSPs and Loan-Related Documents*, A Report Commissioned by Christian Aid.
- Hindley, B and A. Smith (1984) Comparative Advantage and Trade in Services, *The World Economy*, 7(4): 369–390. Article first published online: 3 APR 2007
- Hoekman, B.C. Michalopoulos, M. Schiff and D. Tarr (2002) ‘Trade Policy Reform and Poverty Alleviation’, in World Bank, *A Sourcebook for Poverty Reduction Strategies*. Available online: <http://www.worldbank.org/poverty/strategies/chapters> (accessed on 4th September, 2010)
- Hubbard, M. (2001) ‘Attacking Poverty, a Strategic Dilemma for the World Bank’, *Journal of International Development*, Vol. 13:293-298

- Islam R. (2004) *The Nexus of Economic Growth, Employment and Poverty Reduction: An Empirical Analysis*, Issues in Employment and Poverty Discussion Paper 14, ILO, Geneva
- Jayne, T.S. and S. Jones (1997) Food Marketing and Pricing Policy in Eastern and Southern Africa: *A Survey*, *World Development Journal*, Vol. 25(9):1505-1527.
- Jenkins, R. and C. Edwards (2006) The Asian Drivers and Sub-Saharan Africa, *IDS Bulletin* Vol. 37(1), Institute of Development Studies.
- Kaplin, R. (2005), *Globalization, Poverty and Inequality: Between a Rock and a Hard Place*, Polity Press, Cambridge.
- Kaplin, R. (2006) China and the Global Terms of Trade, *IDS Bulletin* Vol.37(1), Institute of Development Studies.
- Logan, I.L and K. Mengisteab (1993) IMF-World Bank Adjustment and Structural Transformation in Sub-Saharan-Africa, *Economic Geography*, Vol. 69(1):1-24.
- Mackintosh M. (2004) Gaining from Trade? in S. Bromley, M. Mackintosh, W. Brown and M. Wuyts (eds) *A World of Whose Making? Making the International: Economic Interdependence and Political Order*, Pluto Press, London. pp: 33-73.
- McCullulloch, N. L.A. Winters and X, Ciara (2001) *Trade Liberalization and Poverty: a handbook*, Department of International Development, Center for Economic Policy Research, <http://www.cepr.org>: pg1-13
- McMillan, M, K.H. Welch, D. Rodrik, I. Elbadawi and S.O'Connell (2003) *When Economic Reform Goes Wrong: Cashew in Mozambique [with Comments and Discussion]*, The Brookings Institution Press, pp97-165.
- Messkoub M. (1992) Deprivation and Structural Adjustment in M. Wuyts, M. Mackintosh and T. Hewitt (eds) *Development Policy and Public Action*, Oxford University Press in Association with the Open University, London pp:175-198.
- Mkandawire, T. (2004) Can Africa have Developmental States? in S. Bromley, M. Mackintosh, W. Brown and M. Wuyts (eds) *A World of Whose Making? Making the International: Economic Interdependence and Political Order* pp: 291-329, Pluto Press, London.
- Mody, A. (1990) Institutions and Dynamic Comparative Advantage: the Electronics Industry in South Korea and Taiwan, *Cambridge Journal of Economics* Vol 14: 291-314.

- Moran, C. (1990) : A Structural Model for Developing Countries' Manufactured Exports in H.W. Singer, N.Hatti and R. Tandon (eds) *North- South Trade in Manufactures*, Indus Publishing Company, New Delhi, pp 161-186.
- Ndulu, B, L. Chakraborti, L. Lijane, V. Ramachandra and J. Wolgin (2006) *Challenges of African Growth: Opportunities, Constraints and Strategic Directions*, Washington DC.
- Ng, F. and Yeats, A. (2000) *On The Recent Trade Performance of Sub-Saharan African Countries: Cause for Hope or More of the Same?*, Washington, DC, World Bank.
- Palley T.I (2008) Institutionalism and New Trade Theory: *Rethinking Comparative Advantage and Trade Policy*, in *Journal of Economic Issues*, xlii (March): 195–208.
- Rodrik, D (2001) *The Global Governance of Trade: As if Development Really Mattered** Cambridge Press.
- Rodrik, D. (1992) *Industrial Development: Stylized facts and Policies*, Cambridge, Draft Chapter Prepared by U.N.-DESA Publication.
- Rodrik, D. (2004) *Industrial Policy in the Twenty-First Century*, Havard University, John F. Kennedy School of Governement, Cambridge, September 2006 Edition.
- Rodrik, D. (2006) Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reforms, *Journal of Economic Literature*, Vol. XLIV:973-987.
- Rodrik, D. (2007) *One Economics. Many Recipes, Globalization, Institutions and Economic Growth*, Princeton University Press, New Jersey.
- Saasa, O. and J. Carlsson (2002) *Aid and Poverty Reduction in Zambia: Mission Unaccomplished*, Nordiska Afrikainstitutet, The Swedish International Development Cooperation Agency (Sida), Uppsala.
- Seshamani V. (1999) The Impact of Market Liberalisation on Food Security in Zambia, *Food Policy* Vol. 23(6): 539-551
- Seshamani, V. (2002) Second Meeting of the African Learning Group on the Poverty Reduction Strategy Papers (PRSP-LG): The PRSP Process in Zambia, Economic Commission for Africa
- Smith, K.E (2008) *European Union Foreign Policy in a Changing World*, Second Edition, Cambridge Polity Press, Cambridge.
- Streeten, P.P., (1990) Comparative Advantage and Free Trade, in Singer H.W, Hatti N and Tandon R.(eds), *North- South Trade in Manufactures*, Indus Publishing Company New Delhi, pp. 35-51.
- Sundaram J.K and Arnim R.V (2009) Economics, Trade Liberalization and Economic Development, Policy Forum, *Journal of Science* Vol 232(5911): 211-212

- Thurlow, J and P. Wobst (2006), Not All is Equally Good for the Poor: The Case of Zambia, *Journal of African Economics*, Vol.15 (4): 603-625.
- Thurlow, J. and P. Wobst 2004) *The Road to Pro-Poor Growth in Zambia: Past Lessons and Future Challenges*, Development Strategies and Governance Discussion Paper 16, International Food Policy and Research Institute,
- Tutor 2U (2010)
http://tutor2u.net/economics/content/topics/trade/comparative_advantage.htm, Accessed on Thursday 2nd September, 2010 at 11:35am, ISS, The Hague.
- UNCTAD (2004) *The Least Developed Countries Report 2004*. Part 2, chapter 1 Trade and Poverty from a Development Perspective, Geneva pp 67-96.
- UNCTAD (2006) *The Least Developing Countries Report 2006: Developing Productive Capacities*, New York and Geneva: UNCTAD.
- UNCTAD (2008) *The Least Developing Countries Report 2008: Growth, Poverty and Terms Developing Partnership: Statistical Annex, Data on the Least Developed Countries*, New York and Geneva: UNCTAD.
- UNRISD (2010) *Combating Poverty and Inequality, Structural Change, Social policy and Politics*, UNRISD Publication, Geneva Switzerland.
- Unwin, T. (2004) Beyond Budgetary Support: Pro-Poor Development Agendas for Africa, *Third World Quarterly*, Vol. 25(8): 1501-1523.
- van Marrewijk, C. (2002) *International Trade & the World Economy*, Oxford University Press, Oxford New York.
- Williams, T.Z. and G. Mohan (2005) Africa from SAPs to PRSP: Plus Ça Change Plus C'est la Meme Chose, *Review of African Political Economy*, and Vol. 32 (106): 501-503.
- Winters, A. (2000) *Trade, Trade Policy and Poverty: What are the Links?* Discussion Paper No. 2382, Centre for Economic Policy Research London, UK.
- Wolfensohn, J. (1997) 'The Challenges of Inclusion', Address to the board of governors of the World Bank, Hong Kong.
- Wood, A. and J. Mayer (2001) Africa's Export Structure in a Comparative Perspective, *Cambridge Journal of Economics*, Vol. 25(3): 369-394
- Wuyts, M. (2002) 'Aid, The Employment Relation and the Deserving Poor: Regaining Political Economy' in V. FitzGerald (eds) *Social Institutions and Economic Development. A Tribute to Kurt Martin*. pp: 169-188, Dordrecht: Kluwer Academic Publishers.

Wuyts, M. (2004) Macroeconomic Policy and Trade Integration: Tanzania in the World Economy in S. Bromley, M. Mackintosh, W. Brown and M. Wuyts (eds) *A World of Whose Making? Making the International: Economic Interdependence and Political Order* pp: 331-378, Pluto Press, London. Sterling, Virginia in Association with the Open University.

Zambia PRSP, (2002)

<http://www.imf.org/External/NP/prsp/2002/zmb/01/033102.pdf>